



WestBond Enterprises Corporation

Management Discussion and Analysis

dated July 27, 2006, to accompany the consolidated financial statements for the year ended March 31, 2006

Caution Regarding Forward Looking Statements – This discussion includes statements about our expectations for the future. We believe that our expectations are reasonable; however, actual outcomes may differ materially from our expectations due to changes in operating performance, availability of and prices for raw materials, availability of trained labour, US\$/Cdn\$ exchange rate fluctuations, unexpected competition, and other technical, market and economic factors.

Description of Our Business

We, WestBond Enterprises Corporation (“WestBond” or the “Company”), are a paper converter that supplies disposable paper products to many market segments. Our sales volumes continue to increase and have more than doubled in the past 5 years. We initially grew to become one of Canada’s leading manufacturers of medical disposables. In 1998 we expanded into products for use on airplanes and, in 2002, we again expanded our product offering to take advantage of high volume opportunities in personal hygiene products for away from home markets. We sell mainly to major medical and industrial distributors in Canada and the United States and we also sell to larger end-users on a direct basis.

Our product lines include clinical products such as examination table paper, dental bibs, sheets, pillowcases and gowns. The personal hygiene product line consists of hand towels and bathroom tissue in jumbo roll format as well as conventional formats. In addition to these two large markets, we also produce patient wipes and underlays for long-term care facilities (nursing homes), and airline towels and pillowcases.

Our goal is to increase sales by supplying a comprehensive paper product line directly to medium sized janitorial contractors providing public washroom maintenance services and to small and medium sized distributors who sell to the janitorial market. Our most significant competitors in the personal hygiene product line use wholesale master distributors who sell to smaller distributors that sell to smaller contractors. By selling direct or to the smaller distributors, we eliminate the “middle-man” and are able to offer more competitive pricing. Also, unlike our most significant competitors, we will configure our products to these customers’ specifications. Our current focus for expansion in this market is Canada and western USA. We will also pursue opportunities to supply these products directly to smaller hotel, motel and restaurant chains.

During the past year we finished the installation of the last of the machines that permit us to provide a comprehensive personal hygiene paper product line. In addition, in September 2005, we purchased the equipment of a California based paper converter. The equipment includes two more winders for the personal hygiene line and a facial tissue folder, which has allowed us to expand our product mix and capacity. It also includes a number of other machines that will increase our operating efficiency. We are now in a position to increase our marketing efforts. We expect an increase in sales of our personal hygiene products over the next several months, and years.

We also aim to maintain, or modestly increase, our sales of clinical and long-term care products. In addition, we are approaching various airlines to resume sales of our airline products.

Personal Hygiene Products – WestBond started this product line during 2002. The decision by management to expand into personal disposables such as hand towels and bathroom tissue was based on demands by existing medical distributors who wanted to increase their purchasing ability with the Company. We evaluated this potential and determined that the medical industry had a high demand for these types of products. In addition, we soon learned that small to medium size distributors who sell to the janitorial market were not being serviced well by other paper converters. We have made major capital

expenditures to manufacture this product line, which we expect will soon surpass sales volumes to the health care industry.

The personal hygiene paper products include roll and folded hand towels, jumbo roll bathroom tissue, conventional high sheet-count bathroom tissue and a limited line of table napkins. We manufacture these products in 1 and 2 ply formats. We sell these products to Canadian and US distributors and janitorial contractors in large order quantities.

Clinical Products – Historically, this product line represented the Company's core business. Basically, all paper products that are used by clinics, physicians, dentists, chiropractors and physiotherapists form this product category. The equipment that was originally installed to manufacture these paper products is very flexible, reliable and high speed. This allows us to develop new products that could be in demand in the future.

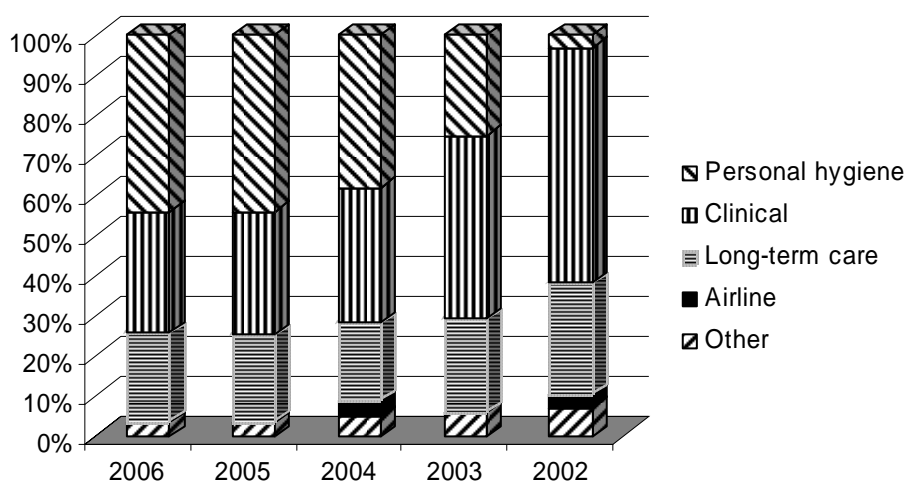
Products in this group are sheets, examination table paper, pillowcases, dental bibs, aprons, gowns, and drapes. The equipment is able to convert roll format as well as sheet format products in many case pack and roll length configurations.

Long-Term Care Products – The products that comprise this category were originally part of the Clinical Product Line. In the past 5 years, sales in this area have increased to the point that we now dedicate two entire production lines to these items. The products include patient wipes, mitts and underlays. All products are made with very high quality air laid paper which results in very soft, very absorbent wipes which are used as disposable wash cloths and perineal wipes.

Products are available in 1/4 fold, 1/8 fold, and roll formats, in a variety of widths and perforation lengths. The Company's Bio-Mitt Plus is a key product to this mix. Bio-Mitt Plus combines the wiping ability of an air laid wipe with a built-in waterproof mitten that protects the hand from contamination. The long-term care market is growing and we continue to develop new products for major Canadian and US distributors.

These three product groups represent WestBond's ability to adapt to market demands and develop product lines to satisfy these markets. Another market that WestBond supplies is the airline industry. We produce in-flight paper disposables such as pillowcases, lavatory hand towels and bathroom tissue.

The following chart shows the portion of total sales that each of the product categories contributed during the years ended March 31, 2002 through 2006.

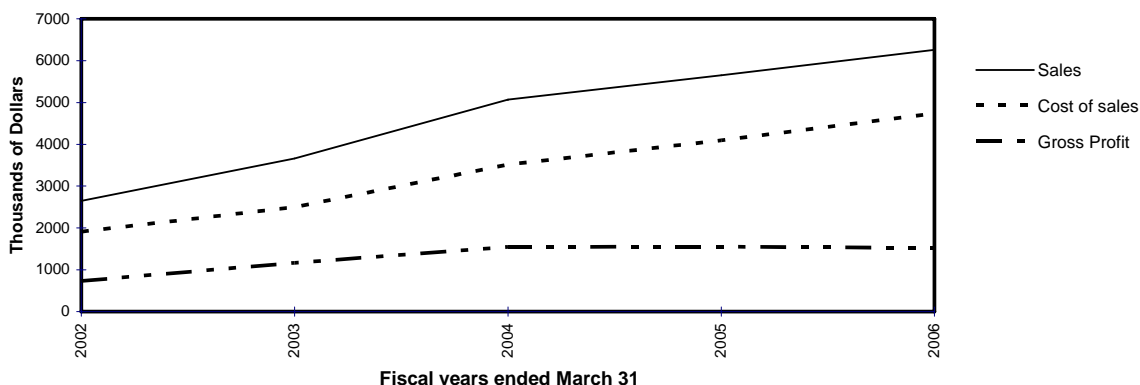


Discussion of Operations and Financial Condition

You should refer to our consolidated financial statements for the year ended March 31, 2006 while you read this discussion. Those financial statements provide significant, material information that is not meant to be, nor is it, included in this discussion. This discussion is meant to provide information not included in the financial statements and an explanation of some of the financial statement information.

Our net income for the year ended March 31, 2006 was \$114,697, which is 47% less than for the year ended March 31, 2005 and 58% less than for the year ended March 31, 2004. The less profitable results for 2006 are due mainly to a lower gross profit margin. Our gross profit margin realized during 2006 was 24%, compared to 28% for 2005 and 31% for 2004. Over the last five years, our gross profit margin has ranged from 24% to 32%, and averaged 28%.

Sales, Cost of Sales and Gross Profit



Selected Annual Information (Unaudited)

We have summarized selected financial information from the Company's consolidated financial statements, which are prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles.

Operating Results	Years ended March 31,					
	2006		2005		2004	
	\$	% of sales	\$	% of sales	\$	% of sales
Sales	6,259,426	100.0	5,652,270	100.0	5,069,320	100.0
Cost of sales	4,738,649	75.7	4,097,693	72.5	3,518,808	69.4
Gross profit	1,520,777	24.3	1,554,577	27.5	1,550,512	30.6
Selling and marketing expenses	630,553	10.1	486,300	8.6	443,587	8.8
General and administrative expenses	698,343	11.2	696,268	12.3	657,581	12.9
Net income before tax	191,881	3.0	372,009	6.6	449,344	8.9
Income tax expense	77,184	1.2	155,711	2.8	175,876	3.5
Net income	114,697	1.8	216,298	3.8	273,468	5.4
Net income per share, basic and diluted	0.01		0.02		0.03	
Cash dividends declared per common share	nil		nil		nil	

Financial Position	March 31,		
	2006	2005	2004
	\$	\$	\$
Current assets	1,937,741	1,677,379	1,306,768
Plant and equipment	3,014,802	2,350,018	2,138,389
Total assets	4,952,543	4,027,397	3,445,157
Current liabilities	1,748,140	1,267,228	1,032,775
Long-term liabilities	920,267	661,131	664,254
Shareholders' equity	2,284,136	2,099,038	1,748,128

Sales

Sales were \$6,259,426 for the year ended March 31, 2006. This represents a 10.7% increase over the year ended March 31, 2005. Increased sales are the result of increased volumes. Pressure from US competitors offering product in reduced value US dollars made it difficult for us to maintain or increase our price levels during the past year. Sales for 2006 were also negatively impacted by machine down time caused by unstable electrical supply. The problem has now been resolved with the addition of filters and extra surge protectors.

The table below summarizes the sales of the Company for the last five fiscal years.

	2006	2005	2004	2003	2002
	\$	\$	\$	\$	\$
Personal hygiene products	2,760,316	2,484,051	1,928,733	918,877	84,726
Clinical products	1,882,879	1,733,599	1,709,997	1,665,870	1,552,503
Long-term care products	1,387,861	1,223,751	977,938	860,593	736,412
Airline products	9,551	24,468	209,334	1,740	86,132
Other products	218,819	186,401	243,318	216,181	191,639
Total sales	6,259,426	5,652,270	5,069,320	3,663,261	2,651,412
Change over previous year	10.7%	11.5%	38.4%	38.2%	-9.0%

We have seen growth in all three of the major product categories over the past five years. The growth is caused by increased sales volumes, new customers and new products. Price increases have not been significant during the last few years.

We have expanded our production capacity and product offerings for the personal hygiene products from 2004 to 2006 and we intend to focus on increasing our sales of these products, both in the western United States and across Canada. Most recently, last autumn, we purchased the equipment of a California based paper converter. We have refurbished and installed two tissue winders and a towel folder from this purchase and are now in the process of refurbishing and installing a facial tissue folder and other equipment that will increase our efficiency.

We also entered into an agency agreement with National Sales of Sacramento, California, who now represent WestBond's complete product line throughout the western United States. The owners of National have many years experience in the sales and distribution of paper products and their extensive customer base is available as potential customers for WestBond.

Sales volumes of clinical and long-term care products also improved in 2006 over 2005. We expect slight improvements in these product sales during the 2007 fiscal year as well. We continue to identify new markets and design custom products to meet customer demands.

The airline products were sold primarily to Canadian Airlines International during 2002. Air Canada chose not to renew this contract after it took control of Canadian; however, we sold lavatory hand towels to them on a temporary basis during 2004. We are approaching smaller US and Canadian based airlines and charterers in an attempt to resume sales of these products.

The recent fluctuations in the US and Canadian dollar exchange rate have had a negative effect on our sales figures. This effect has been offset by a corresponding reduction in the cost of paper purchased from the United States. Generally, our US dollar paper purchases are higher than our US dollar sales volumes. As a result, increases in the value of the Canadian dollar, as compared to the US dollar, tend to increase our profit margins. Competition from US distributors in the Canadian market as a result of the increased relative value of the Canadian dollar, has made it difficult to increase our prices.

Cost of Sales

The following table shows the components of cost of sales over the last five years.

	2006		2005		2004		2003		2002	
	\$	% sales	\$	% sales	\$	% sales	\$	% sales	\$	% sales
Materials	3,376,830	54.0	2,989,137	52.9	2,627,649	51.8	1,800,893	49.2	1,322,128	49.9
Labour	484,963	7.8	433,963	7.7	395,811	7.8	287,115	7.8	216,142	8.1
Variable overhead	415,867	6.6	296,980	5.2	180,388	3.6	147,096	4.0	134,622	5.1
Fixed overhead	290,166	4.6	244,038	4.3	205,765	4.1	167,043	4.6	158,022	6.0
Depreciation	170,823	2.7	133,575	2.4	109,195	2.1	95,269	2.6	82,949	3.1
Total cost of sales	4,738,649	75.7	4,097,693	72.5	3,518,808	69.4	2,497,416	68.2	1,913,863	72.2

Materials are the most significant component of cost of sales. Bulk paper is our main materials cost. Personal hygiene products and examination table paper have a high materials component and a low labour component. By comparison, gowns, drapes, mitts, sheets and pillowcases have a higher labour component and a relatively lower materials component. Also, our margins are lower for the personal hygiene products, where much of the recent has growth occurred, than for the other product lines.

Paper prices, our most significant materials cost, increased during the year ended March 31, 2006. Exchange rate fluctuations; however, worked in our favour to offset some of the higher US dollar prices during the early part of the year, but did not offset them completely during the latter part of the year. While we do not forecast any further paper price increases for our 2007 fiscal year, our prices to our customers have been set to allow for paper cost increases of up to 10%. Some paper cost reductions were realized during the years ended March 31, 2004 and 2003, both as a result of devaluations of the US dollar and to good pricing received on some types of paper. During 2002, paper purchased from the United States was more expensive due to a weakened Canadian dollar.

Materials cost increases are also due to fluctuations in the yield factors (the amount of product that a certain weight of paper will produce). We expect the paper yield factors to improve as recently hired employees develop more experience in operating our equipment.

We had some difficulty obtaining paper supplies during the year ended March 31, 2005 because of a shortage in supply and estimate we lost \$200,000 in sales as a result. While there is currently no paper shortage, this is a common cycle in this industry that occurs every few years. We have expanded our range of paper suppliers and have increased our raw paper inventories in an attempt to ensure an uninterrupted supply in the future; however, the inability to obtain paper at our current input prices may result in lost product sales or in higher materials costs.

Labour in cost of sales averages 7.8% of sales and has been relatively stable over the last four years. We need to hire more skilled labour to operate the additional new machinery for the expanded personal hygiene product line. The current labour market near our factory is tight and it is taking extra time to find and train new machine operators. If we are unable to hire sufficient machine operators, we will not be able to produce the additional products for sale.

Variable overhead normally fluctuates slightly from one period to the next. Continuing increased maintenance activities, factory supervision, training and stock transfer costs account for the recent increases in variable overhead. These activities have improved production efficiencies and we plan to continue them, but to a lesser degree.

Higher rent added \$53,334 to fixed overhead in 2006, \$24,045 in 2005, \$27,101 in 2004, and \$6,852 in 2003. A scheduled rent increase went into effect in July 2003 and we have also rented additional warehouse space, which increased fixed overhead for 2004 and later years. Other fluctuations in fixed

overhead are due to differences in insurance premiums, which decreased by \$7,206 in 2006 after increasing by \$14,345 in 2005 and \$11,636 in 2004. Increases in depreciation expense are the result of bringing new equipment into use.

Selling Expenses

Shipping costs are higher in 2006 than in 2005 as a result of the Company paying freight for more customers, higher freight rates and fuel surcharges and greater shipping distances. Sales commissions and other selling expenses have increased because of the new commissioned sales agent that we hired in California.

General and Administrative Expenses

Administration and office costs and administrative salaries and employee benefits were slightly higher in 2006 over 2005 due to increased office staff and increased office activity to support the increase in sales. Corporate promotion activities were lower during 2006 because we only retained one investor relations consultant and because we did not distribute a glossy annual report.

Interest expense was higher in 2006 over 2005 because interest rates have increased and because the debt levels have increased. Interest on our bank indebtedness and term loans fluctuates with the prime rate of interest. At the levels of this debt at March 31, 2006, a 1% increase in the prime rate of interest would increase total interest expense by \$13,953 per year.

Professional fees were high in 2005 because of legal fees related to the transition of the Company to the new *Business Corporations Act* (British Columbia). Professional fees during the year ended March 31, 2006 include \$11,852 paid to McCullough O'Connor Irwin LLC and DuMoulin Black LLC, law firms in which J. Douglas Seppala, one of our directors, was a partner when the services were provided. The payments represent fees for legal services provided to the Company at rates normally charged to arm's length parties.

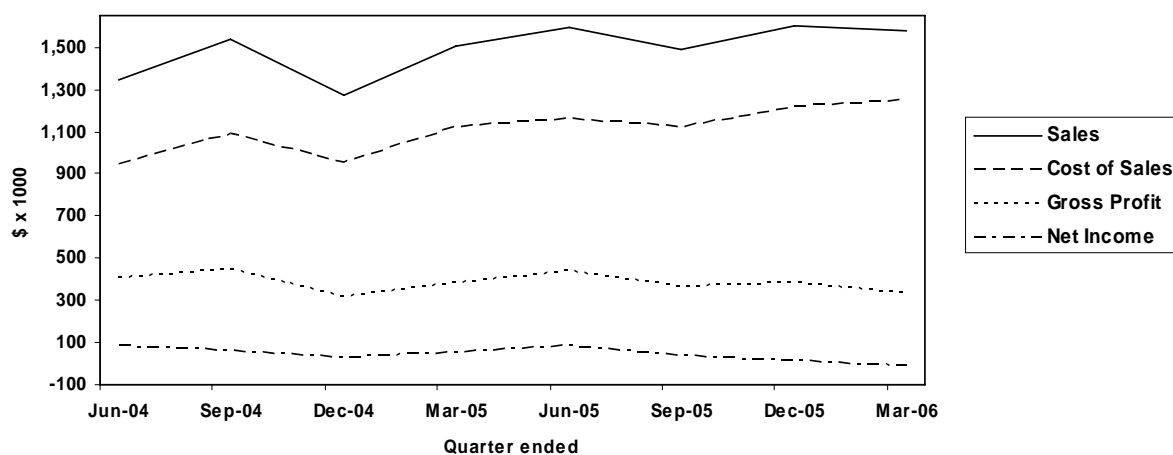
Summary of Quarterly Results (Unaudited)

The following table summarises the results of operations for the past eight quarters. We have extracted the data from our consolidated financial statements, which are prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles.

Cdn\$ x 1,000	Quarters ended							
	Mar 31 2006	Dec 31 2005	Sep 30 2005	Jun 30 2005	Mar 31 2005	Dec 31 2004	Sep 30 2004	Jun 30 2004
Sales	1,581	1,598	1,487	1,592	1,502	1,269	1,534	1,347
Cost of sales	1,249	1,215	1,118	1,157	1,124	948	1,085	941
Gross profit	332	383	369	435	378	321	449	406
Selling and marketing expenses	194	171	125	136	120	108	138	120
General and administrative expenses	178	183	176	163	169	164	205	158
Net (loss) income before taxes	(40)	29	68	136	89	49	106	128
Income tax (recovery) expense	(25)	17	31	55	39	24	46	47
Net (loss) income	(15)	12	37	81	50	25	60	81
Net (loss) income per share, basic and diluted - Cdn\$	(0.002)	0.001	0.004	0.008	0.005	0.002	0.006	0.008
Sales - % change over previous quarter	-1.1	7.5	-6.6	6.0	18.4	-17.3	13.8	5.8

Costs, expenses and net income - % of Sales

Cost of sales	79.0	76.0	72.7	74.8	74.7	70.7	69.8	69.6
Selling and marketing expenses	12.3	10.8	8.6	8.0	8.5	9.0	8.9	9.2
General and administrative expenses	11.3	11.4	10.2	11.3	12.9	13.4	11.8	12.6
Income tax (recovery) expense	-1.6	1.0	3.4	2.5	1.9	3.0	3.5	3.1
Net (loss) income	-1.0	0.8	5.1	3.4	2.0	3.9	6.0	5.5



The increases in sales are, for the most part, due to higher volumes in all product categories, and most significantly in the personal hygiene product line. The decrease during the quarter ended December 31, 2004 was caused by a shortage of paper and, to a lesser extent, price competition. We were unable to purchase sufficient paper to fill customer orders during the quarter and lost approximately \$200,000 in sales as a result. Our sales for the first quarter of the 2007 fiscal year are approximately \$1.6 million.

Slight variations in cost of sales, as a percentage of sales, occur on a regular basis. These are caused by fluctuations in the product mix, production efficiencies and prices for raw materials. Our variable overhead has increased because of increased maintenance and supervisory activities and costs. We expect these to be normalized soon. Selling and marketing expenses are trending upwards, as a percentage of sales, due to increasing freight costs. The addition of the sales agent in California has increased our selling expenses, as well. General and administrative expenses are also increasing, but at a much lower rate than sales.

Liquidity and Capital Resources

Our operating cash flows were \$450,957 during the year ended March 31, 2006, an average of \$37,580 per month, compared to \$48,805 per month during 2005, before accounting for fluctuations in non-cash working capital. We need to increase this monthly cash flow to an average of approximately \$55,000 by September 30, 2006 in order to meet and maintain covenants on our bank loans.

We plan to re-invest our surplus cash flow in new equipment to continue to expand the Company's product lines and improve efficiency and to pay off bank debt. The total principal outstanding on term loans was \$780,183 at March 31, 2006. Principal repayments are \$20,382 per month, including payments on a new term loan of \$465,000 that was received during the year. The term loan proceeds were used to purchase additional equipment.

We have a revolving bank loan facility of \$650,000, of which \$615,101 was used at March 31, 2006. The loan outstanding at any time may not be greater than the total of 75% of Canadian accounts receivable, 50% of US accounts receivable and 50% of inventory, less accounts payable having priority over the bank, such as to governments and employees. Accounts receivable older than 90 days and inventory in excess of \$500,000 are not included in the calculation. Additionally, earnings before interest, taxes and depreciation, calculated on a rolling four quarter basis, must be maintained at 1.5 times the current portion of long-term debt plus interest expense by September 30, 2006.

We use the revolving bank loan facility primarily to finance operating working capital. Inventory and accounts receivable levels normally fluctuate by as much as \$150,000 and accounts payable by an additional \$150,000. We purchase our paper supplies in relatively large quantities and often have large shipments to customers on credit, which are the main reasons for these fluctuations. Accounts receivable and accounts payable levels have increased overall in 2006 as a result of higher sales and production volumes.

Substantially all of the Company's assets are pledged as collateral for the revolving bank loan facility and the term loans.

We currently plan to spend approximately \$200,000 on equipment expansions and improvements during the year ending March 31, 2007. We will finance these additions from operating cash flows. We may acquire additional equipment, if worthy new product opportunities arise. Financing for additional equipment would be available through operating cash flow and additional term loans.

Share Capital

The Company has only one class of share capital, common shares without par value. The Company also has a stock option plan and a shareholder rights plan.

	<u>Amount at July 27, 2006</u>
Authorized common shares	Unlimited
Issued common shares	10,003,800
Shares issuable on exercise of outstanding stock options	1,595,000
Shares available for future stock option grants	405,000

The stock option plan permits the directors of the Company to grant incentive options to the employees, directors, officers and consultants of the Company. The maximum number of shares issuable under the stock option plan is 2,000,000.

The shareholder rights plan (the "Plan") is meant to protect the Company's shareholders from unfair, abusive or coercive takeover strategies. The Plan is subject to shareholder approval at the next annual general meeting and, if approved, will remain in effect until the Company's annual general meeting in 2009. The Plan, in effect, allows holders of common shares to purchase additional common shares from the Company at a 50% discount to the prevailing market price on the occurrence of certain triggering events, including acquisition by a person or group of persons of 20% or more of the shares of the Company in a transaction not approved by the board of directors of the Company. The rights under the Plan are not exercisable by the acquiring person or group of persons. The rights under the Plan are not triggered by purchases of shares made pursuant to a take-over bid that is made to all shareholders on identical terms by way of a take-over bid circular prepared in compliance with applicable securities laws, and certain other conditions set out in the agreement signed to implement the Plan.

Internal Disclosure Controls and Procedures

We have evaluated the effectiveness of our disclosure controls and procedures and have concluded, based on our evaluation, that they are sufficiently effective as of March 31, 2006 to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries is made known to management and disclosed in accordance with applicable securities regulations.

Other Information

Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company's web-site at www.westbond.ca.

WESTBOND ENTERPRISES CORPORATION

Management's Report on the Financial Statements

The accompanying consolidated financial statements of WestBond Enterprises Corporation have been prepared by and are the responsibility of the company's management. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and contain estimates based on management's judgment. Management maintains a system of internal controls adequate to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Audit Committee comprises three directors, none of whom are officers or employees of the company. The Audit Committee meets with management and the company's auditors, PricewaterhouseCoopers LLP, to review the financial statements before they are presented to the Board of Directors for approval.

PricewaterhouseCoopers LLP have examined these consolidated financial statements and their report follows.



President
July 27, 2006



Secretary/Treasurer

Auditors' Report

To the Shareholders of WestBond Enterprises Corporation

We have audited the consolidated balance sheets of **WestBond Enterprises Corporation** as at March 31, 2006 and 2005 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Vancouver, British Columbia

June 30, 2006

WESTBOND ENTERPRISES CORPORATION

Consolidated Balance Sheets

(Canadian Dollars)

	March 31, 2006	March 31, 2005
	\$	\$
A S S E T S		
CURRENT ASSETS		
Cash and cash equivalents	62,924	20,866
Accounts receivable	1,008,730	762,875
Inventory (note 5)	827,274	827,817
Prepaid expenses	38,813	65,821
TOTAL CURRENT ASSETS	1,937,741	1,677,379
PLANT AND EQUIPMENT (note 6)	3,014,802	2,350,018
TOTAL ASSETS	4,952,543	4,027,397
L I A B I L I T I E S		
CURRENT LIABILITIES		
Bank indebtedness (note 7)	615,101	424,217
Accounts payable and accrued liabilities	888,455	692,999
Current portion of term loans (note 8)	244,584	150,012
TOTAL CURRENT LIABILITIES	1,748,140	1,267,228
TERM LOANS (note 8)	535,599	362,469
FUTURE INCOME TAX LIABILITIES (note 9)	384,668	298,662
TOTAL LIABILITIES	2,668,407	1,928,359
S H A R E H O L D E R S ' E Q U I T Y		
SHARE CAPITAL (note 10)		
Authorized – unlimited common shares without par value		
Issued and outstanding – 10,003,800 shares	2,038,836	2,038,836
STOCK OPTIONS (note 10)	201,978	131,577
RETAINED EARNINGS (DEFICIT)	43,322	(71,375)
TOTAL SHAREHOLDERS' EQUITY	2,284,136	2,099,038
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,952,543	4,027,397

Nature of Operations (note 1)
Commitments (note 13)

APPROVED BY THE BOARD OF DIRECTORS:



Director



Director

The accompanying notes are an integral part of these consolidated financial statements.

WESTBOND ENTERPRISES CORPORATION
Consolidated Statements of Operations and Retained Earnings
(Canadian Dollars)

	Year ended March 31,	
	2006	2005
	\$	\$
SALES	6,259,426	5,652,270
COST OF SALES		
Materials	3,376,830	2,989,137
Labour	484,963	433,963
Variable overhead	415,867	296,980
Fixed overhead	290,166	244,038
Depreciation	170,823	133,575
Total cost of sales	4,738,649	4,097,693
GROSS PROFIT	1,520,777	1,554,577
EXPENSES		
Selling and marketing		
Shipping	443,444	362,881
Salaries, commissions and employee benefits	158,609	103,095
Other	28,500	20,324
Total selling and marketing expenses	630,553	486,300
General and administrative		
Administration and office	119,116	105,455
Corporate promotion	45,484	81,176
Interest on term loans	39,345	31,852
Interest on other debt	25,426	20,434
Professional fees	34,790	47,241
Salaries and employee benefits	434,182	410,110
Total general and administrative expenses	698,343	696,268
INCOME FOR THE YEAR BEFORE TAXES	191,881	372,009
(RECOVERY OF) PROVISION FOR INCOME TAXES (note 9)		
Current	(8,822)	8,822
Future	86,006	146,889
Total income taxes	77,184	155,711
NET INCOME FOR THE YEAR	114,697	216,298
DEFICIT - BEGINNING OF YEAR	(71,375)	(287,673)
RETAINED EARNINGS (DEFICIT) - END OF YEAR	43,322	(71,375)
Weighted average number of shares outstanding	10,003,800	9,936,485
EARNINGS PER SHARE, basic and diluted	0.01	0.02

The accompanying notes are an integral part of these consolidated financial statements.

WESTBOND ENTERPRISES CORPORATION

Consolidated Statements of Cash Flows

(Canadian Dollars)

	Year ended March 31,	
	2006	2005
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	114,697	216,298
Adjustments to reconcile net income to cash flows from operating activities		
- depreciation	179,853	146,361
- future income tax expense	86,006	146,889
- stock option expense	70,401	76,112
Cash flows from operating activities before net change in non-cash working capital	450,957	585,660
Net change in non-cash working capital related to operating activities	(22,848)	(199,165)
TOTAL OPERATING ACTIVITIES	428,109	386,495
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(844,637)	(357,990)
CASH FLOWS FROM FINANCING ACTIVITIES		
Term loan proceeds	465,000	-
Repayment of term loans	(197,298)	(206,630)
Increase (decrease) in bank indebtedness	190,884	99,217
Issue of shares on exercise of stock options	-	58,500
TOTAL FINANCING ACTIVITIES	458,586	(48,913)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	42,058	(20,408)
CASH AND CASH EQUIVALENTS		
- BEGINNING OF YEAR	20,866	41,274
CASH AND CASH EQUIVALENTS		
- END OF YEAR	62,924	20,866
INTEREST PAID	64,582	52,978

The accompanying notes are an integral part of these consolidated financial statements.

WESTBOND ENTERPRISES CORPORATION
Notes to the Consolidated Financial Statements
March 31, 2006 and 2005
(Canadian Dollars)

1. NATURE OF OPERATIONS

The company is a paper converter that manufactures disposable products for medical, hygienic and industrial uses.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements include the accounts of the company and its wholly owned subsidiary, WestBond Industries Inc.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash within ninety days of deposit.

Inventory

Raw materials inventory is valued at the lower of cost and replacement cost. Finished goods inventory is valued at the lower of cost and net realizable value. Inventory cost is determined on a first-in, first-out basis.

Plant and Equipment

Plant and equipment are carried at cost less accumulated depreciation. Depreciation is charged to earnings using the straight-line method in amounts sufficient to depreciate the costs of the assets over their estimated useful lives as follows:

Factory equipment	- 5 to 20 years
Leasehold improvements	- 5 to 10 years
Office equipment	- 3 to 10 years

Depreciation is not charged on assets not in service. The company reviews plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability is assessed by comparing the carrying amount to the estimated future cash flows the assets are expected to generate. When the carrying amount exceeds estimated future cash flows, the assets are written down to fair value.

Stock-Based Compensation Plan

The company has a stock-based compensation plan, which is described in note 9. The fair value of stock-based compensation and other stock-based payments made in exchange for goods and services is reflected as compensation expense, or a cost of the goods or services acquired in exchange, and a contribution to shareholders' equity during the period in which the stock-based compensation or stock-based payments vest.

Revenue

Revenue is recognized in the period during which title to the goods sold passes to the purchaser, which is generally when the goods are shipped. Revenue is reported net of estimated returns, discounts and rebates.

Income Taxes

Income taxes are calculated using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

WESTBOND ENTERPRISES CORPORATION
Notes to the Consolidated Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Earnings Per Share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the treasury stock method. This method assumes that common shares are issued for the exercise of stock options and that the assumed proceeds from the exercise of stock options are used to purchase common shares at the average market price during the period. The excess, if any, over the number of shares assumed issued and the number of shares assumed purchased is added to the basic weighted average number of shares outstanding to determine the diluted number of common shares outstanding. If the average market price during the period is less than the exercise price of the stock options, no dilution will occur.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires the company's management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the disclosures in the notes to the consolidated financial statements. Actual results may differ from these estimates.

3. FINANCIAL INSTRUMENTS

The company has various financial instruments including cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and term loans. The fair values of these financial instruments approximate their carrying values.

4. CONCENTRATION OF CREDIT RISK

The company does not believe it is subject to any significant concentration of credit risk. Cash and cash equivalents are held with a major financial institution. Accounts receivable are the result of sales to a relatively wide customer base primarily in North America. The company only deals with customers that it considers creditworthy.

5. INVENTORY

	2006	2005
	\$	\$
Raw materials	674,800	704,434
Finished goods	152,474	123,383
Total inventory	<u>827,274</u>	<u>827,817</u>

WESTBOND ENTERPRISES CORPORATION
Notes to the Consolidated Financial Statements
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6. PLANT AND EQUIPMENT

	2006			2005		
	Cost \$	Accumulated depreciation \$	Net book value \$	Cost \$	Accumulated depreciation \$	Net book value \$
Factory equipment	3,954,925	987,673	2,967,252	3,118,899	821,117	2,297,782
Leasehold improvements	33,212	16,751	16,461	29,287	12,483	16,804
Office equipment	93,829	62,740	31,089	96,273	60,841	35,432
Total plant and equipment	<u>4,081,966</u>	<u>1,067,164</u>	<u>3,014,802</u>	<u>3,244,459</u>	<u>894,441</u>	<u>2,350,018</u>

Included in factory equipment are assets costing \$349,075 (2005 – \$185,106) that had not been put into use at year-end.

7. BANK INDEBTEDNESS

The company has a \$650,000 revolving bank loan facility. The loan outstanding at any time may not be greater than the total of 75% of Canadian accounts receivable, 50% of U.S. accounts receivable and 50% of inventory, less accounts payable having priority to the bank, such as to governments and employees. Accounts receivable older than 90 days and inventory in excess of \$500,000 are not included in the calculation. The loan outstanding under the facility bears interest at bank prime rate plus 0.50% (2005 – prime rate plus 0.75%) per annum and is payable on demand. A fixed and floating charge on substantially all of the company's assets has been pledged as collateral.

8. TERM LOANS

Final due date	Monthly principal repayment \$	2006	2005	Interest rate
		\$	\$	
August 8, 2008	5,834	169,146	239,154	Prime plus 0.75% (2005 – 1%)
August 22, 2008	6,667	193,323	273,327	Prime plus 0.75% (2005 – 1%)
August 16, 2010	7,881	417,714	-	Prime plus 0.75%
Total		780,183	512,481	
Current portion		<u>244,584</u>	<u>150,012</u>	
Long-term portion		<u>535,599</u>	<u>362,469</u>	

A fixed and floating charge on substantially all of the company's assets has been pledged as collateral for the term loans.

The term loans are from a Canadian chartered bank. As part of its agreement with the bank, the company is required to maintain earnings before interest expense, income tax and depreciation of 1.5 times the current portion of long-term debt plus interest expense, calculated on a rolling four quarter basis. The company did not comply with this covenant for the four quarters ended March 31, 2006; however, subsequent to March 31, 2006, the company and the bank amended the agreement such that the company is not required to comply with this covenant until September 30, 2006. At that time the company expects that it will be compliant with all debt covenants.

WESTBOND ENTERPRISES CORPORATION
Notes to the Consolidated Financial Statements
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9. INCOME TAXES

The components of the company's future income tax liabilities are the tax effects of temporary differences in the tax and accounting bases of:

	2006	2005
	\$	\$
Plant and equipment	407,255	309,162
Non-capital losses carried forward	(6,782)	(2,800)
Other tax deductions carried forward	(15,805)	(7,700)
Total future income tax liabilities	<u>384,668</u>	<u>298,662</u>

The income tax expense shown on the consolidated statement of operations and deficit differs from the amounts obtained by applying combined Canadian and British Columbia statutory rates to the net income before taxes as follows:

	2006	2005
Combined statutory rate	34.494%	35.62%
	\$	\$
Income tax expense based on the statutory rates	66,187	132,510
Tax effect of expenses that are not deductible for income tax purposes	24,978	23,201
Effect of reductions in the statutory tax rates	(13,981)	-
Income tax expense for the year	<u>77,184</u>	<u>155,711</u>

The company has non-capital losses available to reduce future taxable income of \$46,322, of which \$2,063 expire on March 31, 2010 and \$44,259 expire on March 31, 2013. The value of these losses is offset against future income tax liabilities.

10. SHARE CAPITAL

Authorized and Issued Share Capital

During the year ended March 31, 2005, the authorized capital of the company was increased, first to 500,000,000 common shares without par value from 50,000,000 common shares without par value, and then to an unlimited number of common shares without par value.

	Number of common shares	Ascribed value \$
Outstanding at March 31, 2004	9,613,800	1,980,336
Issued during the year ended March 31, 2005 on the exercise of stock options	390,000	58,500
Outstanding at March 31, 2005 and March 31, 2006	<u>10,003,800</u>	<u>2,038,836</u>

WESTBOND ENTERPRISES CORPORATION
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10. SHARE CAPITAL (continued)

Stock Option Plan

The company has adopted a stock option plan that permits the directors of the company to grant incentive stock options to the employees, directors, officers and consultants of the company. The maximum number of shares issuable under the plan is 2,000,000. Options granted under the plan generally have a term of three to five years and vest as to 12-1/2% or 25% upon granting and 12-1/2% every three months after that. The option exercise price is generally set as the market price at the time of granting; however, a discount from the market price is permitted under the plan, subject to the policies of the TSX Venture Exchange.

Stock options were granted, exercised and forfeited as follows:

	Number of shares subject to option	Weighted average exercise price
		\$
Outstanding at March 31, 2004	1,175,000	0.162
Options granted	635,000	0.270
Options exercised	(390,000)	0.150
Outstanding at March 31, 2005	1,420,000	0.213
Options granted	75,000	0.240
Outstanding at March 31, 2006	<u>1,495,000</u>	<u>0.215</u>

The weighted average grant date fair value of options granted during the year ended March 31, 2006 was \$0.048 per share (2005 – \$0.191 per share). The fair value of the options granted is charged to earnings based on the vesting schedule, typically over 21 months. Stock based compensation expense for the year ended March 31, 2006 was \$70,401 (2005 – \$76,112).

The fair value of the options granted during the year ended March 31, 2006 was estimated using the Black-Scholes option pricing model, assuming a risk-free interest rate of 3.73% (2005 – 3.89%), a dividend yield of 0% (2005 – 0%), expected option lives of 2 years (2005 – 4 years) and a volatility of 32% (2005 - 100%).

The options outstanding at March 31, 2006 expire as follows:

Expiry date	Total number of shares subject to option	Weighted average remaining contractual life	Weighted average exercise price	Number of shares subject to options that are vested	Weighted average exercise price
December 18, 2006	175,000	0.7 years	\$0.300	175,000	\$0.300
November 18, 2007	75,000	1.6 years	\$0.240	18,750	\$0.240
December 12, 2007	410,000	1.7 years	\$0.120	410,000	\$0.120
May 6, 2008	200,000	2.1 years	\$0.150	200,000	\$0.150
July 7, 2009	635,000	3.3 years	\$0.270	555,625	\$0.270
	<u>1,495,000</u>	<u>2.3 years</u>	<u>\$0.215</u>	<u>1,359,375</u>	<u>\$0.211</u>

WESTBOND ENTERPRISES CORPORATION
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10. SHARE CAPITAL (continued)

Shareholder Rights Plan

During the year ended March 31, 2004, the company adopted a shareholder rights plan (the "Plan") to protect its shareholders from unfair, abusive or coercive takeover strategies. The Plan remains in effect until April 29, 2006 and, subject to shareholder approval, has been extended to the close of the company's annual general meeting in 2009. The Plan, in effect, allows holders of common shares to purchase additional common shares from the company at a 50% discount to the prevailing market price on the occurrence of certain triggering events, including acquisition by a person or group of persons of 20% or more of the shares of the company in a transaction not approved by the board of directors of the company. The rights under the Plan are not exercisable by the acquiring person or group of persons. The rights under the Plan are not triggered by purchases of shares made pursuant to a take-over bid that is made to all shareholders on identical terms by way of a take-over circular prepared in compliance with applicable securities laws, and certain other conditions set out in the agreement signed to implement the Plan.

11. RELATED PARTY TRANSACTIONS

During the year ended March 31, 2006, the company incurred \$11,852 (2005 – \$22,168) of legal fees in the normal course of operations with firms in which a director of the company is a partner. \$6,347 (2005 – \$22,168) of the fees are included in professional fees and \$5,505 (2005 – \$ nil) are included in plant and equipment purchases. At March 31, 2006, accounts payable and accrued liabilities include \$2,272 (2005 – \$ nil) due to the firms.

12. SEGMENTED INFORMATION

The company operates in one industry, the disposable paper and polyethylene industry. During the year ended March 31, 2006, the company had export sales to Germany of \$24,225 (2005 – \$73,017) and the United States of \$1,070,967 (2005 – \$765,302). During the year ended March 31, 2006, the company had sales to one customer of \$658,238 which represented more than 10% of sales (2005 – none).

13. LEASE COMMITMENTS

The company has entered into operating lease agreements for premises which expire in December 2007 and June 2009. Future minimum lease payments are as follows:

	\$
Year ending March 31, 2007	196,282
2008	189,261
2009	149,247
2010	37,312